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TAGS: [ECON](#) [ETRD](#) [EAGR](#) [EG](#) [IR](#)

SUBJECT: EGYPT TO BUY IRANIAN WHEAT TO REDUCE COSTS OF  
BREAD SUBSIDY

REF: A. CAIRO 1462

[B](#). CAIRO 2588  
[C](#). CAIRO 1488

Sensitive but unclassified, not for Internet distribution.

[1](#). (SBU) Minister of Trade and Industry Rachid Rachid agreed to purchase 200,000 tons of reduced-price Iranian wheat last week during a visit to Cairo by Iranian Minister of Industries and Mines Ali-Akbar Mehrabian, according to Egyptian trade officials. However, Egyptian agricultural inspectors, who were unaware of the arrangement, told us that Iran would still have to pass a pest-risk inspection before any sales were final.

[2](#). (SBU) Sayed el-Bous, senior advisor in the Egyptian Ministry of Trade, said Iran offered Egypt the wheat at a reduced price to expand its export markets. Egypt took the deal in order to reduce its expenses for the heavily subsidized baladi bread, a staple on tables across Egypt (refs A and B). A shortfall in international wheat production this year caused prices to soar in commodity markets, resulting in a 4-billion-pound (USD \$710 million) increase in Egypt's bill for the bread subsidy to 9 billion pounds (USD \$1.6 billion), or 4 percent of all government spending in FY06/07.

[3](#). (U) American wheat experts expect that this year's wheat shortage in key producing countries will rebound next year, reducing the price of wheat on international markets. This year, Egypt has purchased \$553 million of US wheat, making it the 2nd-leading market for U.S. wheat in 2007.

[4](#). (SBU) Regarding the Iranian agreement, Ali Soliman, head of the Department of Agriculture's Plant Quarantine office, said that his office had yet to receive a request to send inspectors to Iran for a pest-risk assessment. Egypt requires such an assessment before accepting any wheat exports from another country. Several years ago, he noted, the GoE reached a deal to buy Pakistani wheat, but then canceled the agreement when Pakistan did not pass Egypt's pest-risk assessment.

[5](#). (SBU) Regardless, Egyptian-Iranian economic relations may be advancing in other areas. Although Egyptian trade officials had previously dismissed the possibility of close trade ties with Iran (ref B), el-Bous said that GoE and GoI officials agreed last week to support construction of a new Peugeot plant in Egypt for the assembly of Iranian-made parts into cars for the Egyptian domestic market. Press accounts predicted the plant would produce 5,000 cars a year.

